

RECORDATION NO. 25324 FILED

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SURFACE TRANSPORTATION BOARD

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ELIAS C. ALVORD (1942)
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OF COUNSEL
URBAN A. LESTER

December 8, 2004

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a) are two (2) copies of a Memorandum of Security Agreement, dated as of December 8, 2004, a primary document as defined in the Board's Rules for the Recordation of Documents.

The names and addresses of the parties to the enclosed document are:

Secured Party: Bank of America, N.A.
231 South LaSalle Street
Chicago, Illinois 60697

Debtor: Arizona Eastern Railway Company
18 South Clinton Street, Suite 300
Chicago, Illinois 60661

Mr. Vernon A. Williams
December 8, 2004
Page 2

A description of the railroad equipment covered by the enclosed document
is:

10 locomotives: AZER 24 and 9 within the series AZER 2039 – AZER
2503; and 30 railcars: BN 322194, SP 464880, SP 465028, SP 676591,
SSW 21838 and 25 within the series AZER 1144 – AZER 8771.

A short summary of the document to appear in the index is:

Memorandum of Security Agreement.

Also enclosed is a check in the amount of \$32.00 payable to the order of
the Surface Transportation Board covering the required recordation fee.

Kindly return stamped copies of the enclosed document to the
undersigned.

Very truly yours,



Robert W. Alvord

RWA/anm
Enclosures

MEMORANDUM OF SECURITY AGREEMENT

DEC 08 '04

12:15 PM

This Memorandum of Security Agreement is made and entered into as of December 8, 2004, by and between BANK OF AMERICA, N.A., a national banking association (hereinafter referred to as the "**Bank**"), and ARIZONA EASTERN RAILWAY COMPANY, an Arizona corporation (hereafter referred to as the "**Debtor**").

SURFACE TRANSPORTATION BOARD

The Debtor has requested the Bank to make loans to the Debtor and the other Borrowers (as defined in the Loan Agreement hereinafter referred to), pursuant to that certain Loan Agreement, by and among the Bank, the Debtor and the other Borrowers, dated as of December 8, 2004 (the "**Loan Agreement**"), setting forth the terms and conditions of such loans;

As consideration for the loans which have been or will be made to the Debtor and the other Borrowers pursuant to the Loan Agreement, the Debtor has executed a Security Agreement with the Bank, dated as of December 8, 2004 (the "**Security Agreement**"), and granted to the Bank a security interest in, among other things, all of the following properties, assets and rights of the Debtor, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof (all of the same being hereinafter called the "**Collateral**"):

(a) all of the locomotives described on Schedule 1 attached hereto, together with (i) any replacement substituted for any such locomotive, (ii) all parts of any such locomotive, (iii) all logs, manuals and data and inspection, modification and maintenance records maintained in respect of such locomotives, including, without limitation, all such logs, manuals, data and records required to be maintained by any applicable regulatory agency of body of any jurisdictions, and (iv) all property insurance policies relating to such locomotives; and

(b) all of the railcars described on Schedule 2 attached hereto, together with (i) any replacement substituted for any such railcar, (ii) all parts of any such railcar, (iii) all logs, manuals and data and inspection, modification and maintenance records maintained in respect of such railcars, including, without limitation, all such logs, manuals, data and records required to be maintained by any applicable regulatory agency of body of any jurisdictions, and (iv) all property insurance policies relating to such railcars.

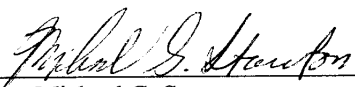
As contemplated by the Security Agreement, the Bank and the Debtor hereby make this Memorandum of Security Agreement to confirm and perfect the Bank's security interest in the Collateral. The Bank and Debtor further acknowledge and confirm that this Memorandum of Security Agreement is not a summary of the Security Agreement nor a complete recitation of the terms and provisions thereof. Accordingly, the Bank and the Debtor agree that in the event of a conflict between this Memorandum of Security Agreement and the provisions of the Security Agreement, the provisions of the Security Agreement shall control.

[Signature Page Follows]

IN WITNESS WHEREOF, each of the parties hereto, pursuant to due corporate authority, has caused this Memorandum of Security Agreement to be duly executed in its corporate name by its officers, thereunto duly authorized, all as of the date first above written.

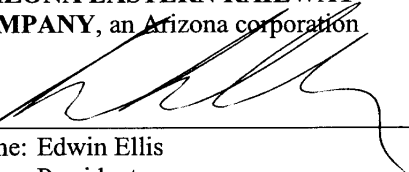
BANK:

BANK OF AMERICA, N.A.,
a national banking association

By: 
Name: Michael G. Staunton
Title: Senior Vice President

DEBTOR:

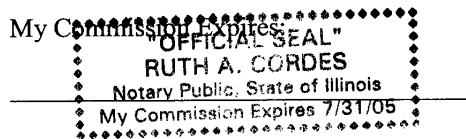
**ARIZONA EASTERN RAILWAY
COMPANY, an Arizona corporation**

By: 
Name: Edwin Ellis
Title: President

STATE OF ILLINOIS)
) ss.
COUNTY OF COOK)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 8th day of December, 2004, personally appeared Michael G. Staunton to me known personally, and who, being by me duly sworn, deposes and says that he is the Senior Vice President of Bank of America, N.A., and that said instrument was signed and sealed on behalf of said bank by authority of its Board of Directors, and said Senior Vice President acknowledged said instrument to be the free act and deed of said bank.

Ruth A Cordes
Notary Public



STATE OF ILLINOIS)
) ss.
COUNTY OF COOK)

Before me, the undersigned, a Notary Public in and for the county aforesaid, on this 8TH day of December, 2004, personally appeared Edwin Ellis to me known personally, and who, being by me duly sworn, deposes and says that he is the President of Arizona Eastern Railway Company, and that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and said individual acknowledged said instrument to be the free act and deed of said corporation.

Ruth A Cordes
Notary Public

My Commission Expires:

"OFFICIAL SEAL"
RUTH A. CORDES
Notary Public, State of Illinois
My Commission Expires 7/31/05

Schedule 1

LOCOMOTIVES

AZER Locomotives

Mark	Number	Builder	Type	H.P.	Built	Serial #	Owner
1 AZER	24	EMD	SW-1200	1200	1963	28747	AZER
2 AZER	2039	EMD	GP-20	2000	1961	26308	AZER
3 AZER	2044	EMD	GP-20E	2000	1962	27353	AZER
4 AZER	2045	EMD	GP-20R	2000	1961	26311	AZER
5 AZER	2046	EMD	GP-20R	2000	1961	26312	AZER
6 AZER	2170	EMD	GP-20	2000	1960	25703	AZER
7 AZER	2171	EMD	GP-20	2000	1960	26291	AZER
8 AZER	2501	EMD	GP-35	2250	1961	28403	AZER
9 AZER	2502	EMD	GP-35	2250	1965	30219	AZER
10 AZER	2503	EMD	GP-35	2250	1965	30221	AZER

Schedule 2

RAILCARS

AZER Railcars

Car Type	Initial	Number	Build Date	Owner	Bearing Design	MFR	Plan	Service Status
Flat	AZER	5064	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5082	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5097	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5189	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5201	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5221	Oct-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5224	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5226	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5312	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5313	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5327	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5328	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5341	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5352	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5369	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5388	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	5407	Jan-70	AZER	RB	Greenbrier		In Svc
Flat	AZER	5460	Nov-68	AZER	RB	Greenbrier		In Svc
Flat	AZER	7013	Jun-66	AZER	RB	Greenbrier		In Svc
Flat	AZER	7040	Jun-66	AZER	RB	Greenbrier		In Svc
MW-Flat	AZER	5508	1956	AZER	RB	Greenbrier		In Svc
MW-Side dump	AZER	8771	1929	AZER	RB	Difco		In Svc
MW-Side dump	AZER	1208	1929	AZER	RB	Difco		In Svc
MW-Ballast	AZER	1144	1957	AZER	RB	Pullman-Standard		In Svc
MW-Ballast	AZER	3892	1963	AZER	RB	Pullman-Standard		In Svc
Box	SSW	21838	1971	AZER	RB	Pullman-Standard	Scrap	OOS
Box	SP	676591	1975	AZER	RB	Pullman-Standard	Scrap	OOS
Hopper	SP	464880	1968	AZER	RB	Pullman-Standard	Scrap	OOS
Box	BN	322194	1975	AZER	RB	Pullman-Standard	Scrap	OOS
Hopper	SP	465028	1968	AZER	RB	Pullman-Standard	Scrap	OOS